

**Statement by Gary Smith
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Chair, Northwest Farm Credit Services, ACA, PCA and FLCA
At the FCA Public Meeting on Scope of Eligibility and Financing
June 26, 2003**

Chairman Reyna and Board Members Mr. Flory and Ms. Pellett:

My name is Gary Smith. I am appearing here this morning as Chairman of the Board of Directors of Northwest Farm Credit Services, headquartered in Spokane, Washington, and serving the credit needs of agriculture and rural America in the states of Alaska, Montana, Idaho, Oregon and Washington. More importantly, I am here today as a dairyman and farmer. I operate a 350-cow dairy in Sequim, Washington. Sequim is located approximately 65 miles northwest of Seattle, Washington, on the west side of Puget Sound.

I am pleased to be here today to encourage Farm Credit Administration's (FCA's) efforts to revisit the present definition of a bona fide farmer, rancher or aquatic producer, and, particularly, its approach to regulating access to credit by "part-time or full-time" farmers. In today's agricultural environment, and in my own situation, this distinction between what is a "part-time and full-time" farmer is becoming meaningless and must change if the Farm Credit System is to continue to serve the credit needs of all types of agriculture as mandated by Congress.

Not unlike many farmers and ranchers today, urban pressures, depressed commodity prices, world economic conditions, trade imbalance and continuing increases in the cost of production have required that we diversify and supplement our farm income. Along with the dairy, we now contract to haul bulk milk for Darigold, our processing co-op; process and market our manure solids to the landscape business where we receive topsoil price for this byproduct; and operate a wholesale flower and bedding plant greenhouse serving our local and Seattle/Tacoma markets.

Fortunately, my parents purchased property in Sequim during the 1940's and 1950's that is now being developed commercially. Even though my primary source of income today remains agricultural, given economic conditions in the dairy industry, the sale of this commercial property may soon surpass our traditional agricultural income. Diversification, off-farm income and additional borrowing are necessary for us to remain viable in even a medium-sized family farm. Does this diversification make me a part-time farmer? Does it minimize my need for alternative sources of competitive credit, or the need to have my credit needs met by a single lender if advantageous to me? Clearly, the answer to these questions is "No."

This problem is even more significant for small, young and beginning farmers. Two of my sons are business partners actively engaged in our farming operation. My daughter hopes to be but presently is not. In the case of my daughter, this is simply because the income of our operation cannot support another family. However, my daughter, who is a registered nurse, and her husband work part-time on the farm with the hope that their efforts will develop new sources of

income, which someday will allow them to come back to the farm. Her medical training may someday serve as one of those income sources. One son in the partnership is married. His wife works on the farm, but also off the farm as a coach in the local school district to supplement their farm income. My family situation is not unique. There are countless examples, particularly of young, beginning and small to medium sized farmers who must look to off-farm sources of income to survive in agriculture. Again, does this make them part-time farmers or lessen the need for credit? Again, the answer is “No.”

In preparing for this hearing, I reviewed the mission of the Farm Credit System. In doing so, I did not look to the rhetoric of those who would prefer that the Farm Credit System not exist, but rather the straightforward terms used by Congress in the preamble and first few paragraphs of The Farm Credit Act itself. Congress’ intent was clearly stated; (quoting in part) to create a permanent, farmer-owned cooperative system, designed to improve the income and well being of American farmers and ranchers by providing for the present and future credit needs of all types of agriculture having a basis for credit. These simple terms provide clear direction to what the Farm Credit System was designed and intended to do and what it must do if it is to successfully carry out this mandate. The concept of limiting the availability of credit based upon whether an individual is a part-time or full-time farmer is a creation of regulation, and has no place in agriculture today.

The economic realities of today’s agriculture allow few successful farmers to “just farm.” Start-up costs and required capital investment prohibits young and beginning farmers from getting established or succeeding in agriculture without maintaining outside enterprises to support their agricultural endeavor. To unnecessarily limit these already struggling farmers’ access to credit unfairly burdens them and diminishes the System’s ability to serve all types of agriculture.

Fortunately, today’s agricultural producers are better educated and have technology available to them which was not even dreamed of a generation ago. These have given farmers and ranchers both the opportunity and the tools needed to pursue other careers, ventures and enterprises necessary to increase and diversify their income. They have integrated their operations vertically and horizontally. Many are professionals, able to provide accounting, veterinarian, managerial, medical, legal or any number of professional and technical services to support their on-farm income. The means used by farmers to succeed is as varied as the number of producers in agriculture and limited only by their creativity and expertise. It would be ironic that as farmers and ranchers become more expert, creative and entrepreneurial, they risk losing access to Farm Credit as a source of competitive credit for all of their credit needs merely because they were labeled a “part-time” farmer; a status found nowhere in The Farm Credit Act.

FCA regulations have not kept pace with the reality of farming today. These regulations have become burdensome to Farm Credit System institutions trying to serve all types of agriculture and have limited access to available credit to agricultural producers as their income sources expand.

FCA's present definition of "bona fide farmer or rancher" provides adequate direction to Farm Credit institutions and should be retained. However, once established as a "bona fide farmer or rancher," Farm Credit should be allowed to carry out its Congressional mandate to serve all of their credit needs, subject to the credit worthiness of the applicant and appropriate policies and controls adopted by the boards of those System institutions. Boards of directors of Farm Credit institutions should be held accountable to develop policies and implement safeguards that assure these credit needs are met on a safe and sound basis. In doing so, Congress can be assured that Farm Credit will continue to serve all types of agriculture in that it will remain a farmer-owned cooperative governed by boards of directors like that at Northwest Farm Credit Services which, with the exception of our outside director, consists of stockholder-owner farmers and ranchers actively engaged in and committed to production agriculture.

In concluding, I refer you to FCA's Statement of Regulatory Philosophy published in 1995 and ask that you be guided by the objectives set out therein:

"In general, the board's regulatory objective will be to: Create an environment that promotes the confidence of customer/stockholders and investors and the public in the Farm Credit System's financial strength and future viability and grants System institutions the maximum flexibility consistent with this purpose to offer high quality, reasonably priced credit and other services to customer/shareholders" [emphasis added].

What better way for FCA to meet this objective than to remove a burdensome and archaic regulation and in so doing, grant the flexibility to the Farm Credit System to serve the credit needs of all types of agriculture as Congress intended and agriculture needs.

Thank you.